Alcohol Taxes and Fees: An economic and historical perspective

Testimony from *Bruce Lee Livingston*, MPP
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I am going to give a brief history of alcohol tax and fee proposals, compare California's tax rates to other states, present alcohol cost and harm data, and then run through a few tax and fee options that could generate hundreds of millions, if not billions, of dollars.

My name is Bruce Livingston. I am the executive director of Marin Institute, the alcohol industry watchdog. My testimony is backed up by 20 years of Marin Institute's involvement in alcohol tax and policy issues, and by our research staff of Michele Simon and Simon Rosen, who are experts in alcohol costs, economic analysis, and tax policy.

California, other states and the federal government, all have significantly lower tax rates than other Western countries. In 1990 advocates placed an initiative on the California ballot to raise the alcohol excise tax 5 cents a drink. The alcohol industry, including manufacturers, distributors, and retailers, spent more than $30 million to defeat the measure. This was the same confusing ballot in which Big Green and Forests Forever initiatives failed.

Nonetheless, as a result of this effort, in 1991 the California legislature passed the most recent alcohol excise tax increase – amounting to about a penny a drink. This took effect in 1992. A national penny-a-drink tax increase also passed in 1991.

Alcohol tax and fee proposals are attempted in the state legislature almost every session,. In 2003 Senator Romero proposed a 5-cent fee proposal for alcohol-related hospital emergency services. Also in 2003, Assemblymember Wilma Chan proposed an alcohol fee proposal for up to $100 million for youth alcohol prevention and recovery programs.

In 2006 Senator Romero made another proposal to allow counties to assess sales taxes for on-premise consumption. None of these proposals made it out of the first house.

California alcohol excise taxes are lower than many other states, and pale in comparison to Western European taxes.

We tax alcohol according to categories of beer, wine, and distilled spirits. The taxes are based on per gallon charges, although in common parlance they are often discussed as the tax on a standard can of beer, glass of wine, or shot of liquor. Beer and wine are each taxed at 20 cents a gallon, and the tax rate for distilled spirits is $3.30 a gallon.

Among the states, California is tied for 29th lowest in beer taxes, 15th lowest in spirits, and tied for 3rd lowest in wine taxes. Among the states, California's beer tax is average, the distilled spirits tax is low, and the wine tax is extremely low.

But the beer tax in all states (except Alaska, Hawaii and South Carolina) is a fraction of the national beer excise tax rates, and the beer tax in every state is a tiny fraction of the rate in the United Kingdom and Sweden.

Also important to keep in mind is that over time, excise taxes decrease with inflation. Sales taxes, as a percentage of retail price, go up in real dollars with inflation. However, excise taxes are based on wholesale quantities of product, and depreciate in value with inflation.

Due to inflation, the real value of California excise taxes has declined 45 percent since 1992.

We have charts that show the decline over time in the three tax rates in California as it is corrected for the effect of inflation. The first chart shows the inflation adjusted decline in tax rates since 1969, this second chart shows the decline from 1992 to 2002. The third chart shows a similar national trend of decline from 1950 – 2002.

Another way to look at this excise tax real income decline is by comparing alcohol excise tax income to state expenditures. In 1992 the alcohol excise tax brought in .35% of the state's needed expenditures. In 2005 it brought in .18% of the needed expenditures. In other words, the alcohol excise tax contribution to the California budget is now half of what it was in 1992.

Now here is my Ben Bernanke moment: As the U.S. economy slips into a period of inflation or stagflation, the legislature needs to be especially mindful of the deleterious impact of inflation on excise taxes.

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Let me switch over to discussing the costs of alcohol to California, and the nexus of those costs to possible producer fees which may pay for California Department of Alcohol and Drug Programs and other services.

Marin Institute is in the process of estimating the harm and costs to California through alcohol use. More than 9000 lives are lost each year from alcohol. That in itself is staggering. But the economic and social costs are massive as well. We estimate more than $36 billion in costs, of which $6.4 billion are healthcare costs alone.

$4.3 billion of those healthcare costs (out of $6.3 billion) are emergency, hospital, prevention and treatment costs incurred by the government. That is, up to 2/3 of the medical costs are state and local government costs. Most of these costs could be charged as user fees to drinkers, or charged upstream to distributers and brewers as alcohol producer fees – which we call excise surcharges.

The alcohol industry pays a small portion of total social costs. Sales taxes are $1.56 billion, excise taxes are $318 million, and license fees are $50 million. Thus, total taxes and fees equal $1.94 billion annually. Therefore, the percentage of all economic and social costs covered by current taxes and fees on the alcohol industry is a paltry 5%.

You will of course hear from the industry of the benefits of the alcohol industry, but quite simply, if consumers did not spend money on alcohol, they would spend it on some other economic activity that in turn may create other jobs.

Moreover, alcohol excise taxes lag far behind tobacco revenues. Tobacco revenues are $1.09 billion while alcohol excise revenues are S318 million. By comparing the ratio of revenue to social cost for tobacco and alcohol, we find that tobacco taxes are 6.5 times more effective than alcohol taxes in internalizing the cost of harm. You <u>could say</u> that the alcohol lobby is more than 6 times as effective as the tobacco lobby, <u>except</u> that the two are often intertwined.

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Now let me switch to a quick study of excise tax and fee options. One proposal is for an across-the-board 25 cent per drink tax increase which could generate $3 billion in revenue.

A similar beer only tax increase of 30 cents would generate $2 billion. The logic for beer only is that beer hands down causes the most harm, it is the drug of choice for youth, and the tax level could be raised to the distilled spirits level. Adding wine increases would generate an additional $300 million.

Taxes or fee proposals could cover a whole host of programs. The entire ADP budget could be costed out to an alcohol industry fee. Programs that merit alcohol revenue include: emergency rooms, trauma care, Medi-Cal, mental health, alcohol treatment, new programs to monitor ads, educate or counter-advertise, policing of liquor stores, crime prevention, and traffic safety. If local governments can assess fees on retailers to cover costs of policing, why can't the state assess fees on manufacturers to cover other costs?

Is there public support for an increase in alcohol taxes? You bet. Both drinkers and non-drinkers regularly support tax increases, with polling above 70%. California polling for the 1990 initiative was 73 percent for a nickel a drink, and 25 cents for alcohol prevention would likely show a similar result today. Polling also shows people are more likely to support alcohol tax increases when they know the money will be directed to alcohol-related programs – although the polling support connection to health care coverage per se has not been fully tested.

The biggest challenge to alcohol fees, taxes and correct pricing is the tremendous influence of what we call Big Alcohol, led by lobbying from Anheuser-Busch and Diageo.

Industry spent more than $30 million to defeat the 1990 initiative. Big Alcohol donated $3.5 million to California statewide politicians in 2006 and spent an additional $3 million on lobbying. Big Alcohol spends far more on lobbying and elections than most industries as a share of their revenues.

Alcohol fees or tax impacts on consumers could be negligible. One-third of the population does not drink at all. Of those who drink, 50% drink 95% of the volume and would incur the bulk of the costs for their risky behavior. The impact of taxes or fees is felt hardly at all by most, while it has the added benefit of reducing harm from over-consumption. The one demographic group that is absolutely the most susceptible to price increases is youth, who will reduce their drinking when prices go up.

In constructing legislation for revenues, alcohol producer fees could be collected along with the excise taxes as an excise surcharge fee. Producers then could decide whether to take it out of their own profits, produce more efficiently, or send the new cost down the supply chain to their drinking consumers.

In summary, at a minimum, this body should consider designing an alcohol producer excise surcharge to cover all ADP alcohol-related services, and add a similar fee for uncharged ABC services, and all mental health services related to alcohol. The nexus is overwhelming, and easy to justify. This excise surcharge could contribute $200 million or more to next year's budget, and of course pass with a majority vote.

Much larger income sources could be generated by correcting alcohol excise taxes for inflation. Correcting for inflation since 1992 adds over $700 million to the budget. Or consider a 25-cent per drink surtax generating $3 billion annually. Or consider a 30-cent beer only surtax generating $2 billion, as beer is the teen drug of choice, with the greatest harm and greatest revenue impact.

The overall principal we can recommend to you is to make the industry (and the high-quantity drinkers) pay the costs as opposed to all taxpayers, as is the case now. Fees can be readily applied in this legislative session with simple majority votes, immediately garnering $100s of millions of dollars for needed alcohol prevention programs.

And finally, the legislature needs to address the historic and massive decline in the fair contribution of revenues from the alcohol industry.

Thank you for the opportunity to address you today. We are available for questions.